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## NATIONAL ASSET LEASING CORPORATION LIMITED ANNUAL REPORTS 2003

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#### Company Information

##### Board of Directors

Mr. Shamim I. Junejo	Chairman
Dr. Khalid Iqbal	Director
Mr. M.A. Rehmani	Director
Syed Naveed Zaidi	Director
Mr. Azhar Tariq Khan	Director
Mr. Sohail All	Director
Mr. Rana M. Abu Obaida	Chief Executive Officer

##### Audit Committee

Mr. Shamim I. Junejo	Chairman
Mr. Azhar Tariq Khan	Member
Mr. M.A. Rehmani	Member

Company Secretary	Syed Haider Zaidi
Bankers	Allied Bank of Pakistan Limited Habib Bank Limited National Bank of Pakistan
Auditors	M/s. M. Yousuf Adil Saleem & Co. Chartered Accountants Cavish Court, A-35, Block 7/8 KCHSU, Shahrah-e-Faisal Karachi
Legal Advisor	M/s. Mansoor Ahmed Khan & Co. Advocates & Solicitors F-2/3, Block 8, Kehkashan KDA Scheme 5, Clifton Karachi
Share Registrar	M/s. Noble Computer Services (Pvt) Ltd. 14, Banglore Town Housing Society Shahrah-e-Faisal, Karachi
<b>Registered Office</b>	301-302, Mohammad Gulistan Khan House 82-East, Fazal-ul-Haq Road Blue Area, Islamabad
<b>Head Office</b>	309, Anum Empire Block 7/8, KCHSU Shahrah-e-Faisal, Karachi Ph: 4527246, 4529224 & 4529225 Fax: (92-21) 4527232 E-mail: natlease@fascom.com

#### NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirteenth Annual General Meeting of National Asset Leasing Corporation Limited will be held, on Wednesday October 29, 2003 at 11.30 A.M. at its registered office 301-302, Mohammad Gulistan Khan House, Fazal-ul-Haq Road, Blue Area, Islamabad to transact the following business:

#### ORDINARY BUSINESS

1. To confirm the Minutes of Twelfth Annual General Meeting held on October21,2002.
2. To receive, consider and adopt the Audited Accounts for the year ended June 30,2003 together with Directors' and Auditors' Report thereon.
3. To appoint Auditors and to fix their remuneration for the year July 01, 2003 to June 30, 2004. The present Auditors, M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.
4. To transact any other business with the permission of the Chair.

By Order of the Board  
Islamabad: October 06, 2003

Syed HaiderZaidi

Company Secretary

Notes:

1. The Register of Members of the Company will remain closed from 21th October 2003 to 28th October 2003 (both days inclusive) and no transfer of shares will be made during the period the register is closed.
2. A member entitled to attend and vote at the General Meeting is entitled to appoint another member as his/her proxy to attend and vote on his/her behalf.
3. Instrument appointing proxy and the Power of Attorney or other authority under which it is signed or a notarially certified copy of the Power or authority must be deposited at the Registered Office of the Company at least 48 hours before the time of the meeting.
4. CDC Shareholders entitled to attend and vote at this meeting, must bring with them their National Identity Cards/Passports in original along with Participants ID Numbers and their Account Number to prove his/her identity, and in case of proxy, must enclose an attested copy of his/her NIC or Passport, representatives of Corporate members should bring the usual documents required for such purpose.
5. Shareholders are requested to notify any change in address immediately.

IN THE NAME OF ALLAH, MOST GRACIOUS, MOST MERCIFUL

REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED JUNE 30, 2003

The Board of Directors is pleased to present its 13<sup>th</sup> Annual Report together with the audited financial statements for the year ended June 30, 2003. The financial statements annexed to this report, present fairly its state of affairs, the result of its operations, cash flows and changes in equity. Proper books of account have been maintained. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based /on reasonable and prudent judgement. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

#### FINANCIAL RESULTS & REVIEW OF OPERATIONS

As informed earlier the Company ceased to operate as a leasing company following suspension / cancellation of leasing license by the Securities & Exchange Commission of Pakistan due to our failure to raise the capital of the company to Rs200.0 million as required under Leasing Rules. As a result, the management reduced its expenses substantially and made all efforts to settle the debts through assignment of receivables. Your directors are pleased to confirm that the lenders to the company, considering the serious financial problems of the company, granted substantial concession and remission in the form of waivment of fee, mark-up etc., which helped your company to convert the operational losses into a profit of Rs0.73 million, despite the fact that a large amount of loss was incurred due to settlement of leases for assignment of rentals to the lenders. We are pleased to confirm that the outstanding liabilities of a Commercial Bank and a NBFC were fully repaid during the year under review. No new business was undertaken during the year under review. Since the most of the leases have matured hence the gross revenue decreased to Rs.0.84 million from Rs.1.23 million as compared to last year, but the same was covered by reducing the administrative expenses from Rs.5.32 million of last year to Rs.4.47 million during the fiscal year 2003.

The operating results for the year under review are given below:

Gross revenue	RsO. 84 million
Administrative charges	Rs4.47 million
Financial charges	Rs2.47 million
Reversal of mark-up etc. as per settlement of liabilities less loss caused due to settlement of lease for assignment of rentals to the lenders	Rs7. 38 million
Net Profit forthe year*	RsO. 73 million

\* unrealised gain on remeasurement of investments amounting to Rs.3.5 million has not been included above

The Comparative statement for last 6 Years of key financial and operating data is annexed.

As stated above, the Company could not declare any dividend / bonus for the year under review.

During the year, six meetings of the Board of Directors were held and all the Directors except Mr. Sohail Ali attended the meeting. Mr. Sohail Ali remained out of country throughout the year.

#### FUTURE OUTLOOK

We are making all efforts for the merger of your leasing company with a financially solvent leasing company

and hopefully the matter will be finalized soon. We also discussed our plan with the Executive Director of Securities & Exchange Commission of Pakistan, who advised to pursue investors for the investment in the Equity of the Company in order to consider the restoration of licence and accordingly investors have been approached and hopefully a revival plan for increasing the equity through merger and injection of fresh funds will be submitted to SECP very soon.

#### CODE OF CORPORATE GOVERNANCE

Your Directors have implemented the code as required and there has been no material departure from it. The

Audit Committee and Executive Committee have also been established.

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#### GOING CONCERN ASSUMPTION & FUTURE PROSPECT

The Company has earned a net profit of Rs.0.73 million during the year (2002: Loss of Rs.0.91 million) and its accumulated losses up to June 30, 2003 amounted to Rs.91.37 million (2002: Rs.91.96 million) and after including the unrealised gain on the remeasurement of investments amounting to Rs2.91 million, the net equity of the Company has increased to Rs. 16.87 million (2002: Rs. 12.66 million). The Company has not paid the overdue amounts to financial institutions as specified in notes 5.2,6.1,6.3,10.4,17.1 & 17.2 to the financial statements. The Management negotiating with a Leasing Company and Potential Investors for merger and enhancement of equity. As regards the deposits of Rs43.98 million placed with an associated investment bank, the management of the investment bank has successfully negotiated with Army Welfare Trust (AWT-Askari Bank) and Habib Bank Limited to participate in the enhancement of capital of the bank. NALC will also convert their entire deposit plus profit into equity jointly with AWT and HBL subject to approval by Securities & Exchange Commission of Pakistan (SECP). Necessary approvals of the Directors and members have already been obtained in the last AGM of NALC. In view of above, the stuck up amounts now seems to be recoverable in the form of shares of AIBL. The Company has repaid / settled loans of Rs.10.82 million during the year under review through the sale of TFCs and rentals received by them. Furthermore, the management is in the process of negotiating the settlement of remaining above-mentioned overdue loans.

Auditors have qualified their Audit Report due to non-provisioning in respect of the following items:

- a) Deposits with Asset Investment Bank Limited
- B) Amount receivable from various lessees.
- c) Reversal of accrued mark-up and non accrual of mark-up on loans.

Management considers that in view of the negotiation with various lenders and borrowers and process of restructuring / rescheduling of Company's assets as well as liabilities, substantial amount of such provision will not be required. Further in view of significant progress made in restructuring of associated undertaking i.e. Asset Investment Bank Limited with Habib Bank Limited and Army Welfare Trust (AWT) in the participation of enhancement of Capital of Investment Bank. Based on that, management consider that at this stage there is no need to make any provision against above assets. However in the interest of transparency and full disclosure, management has given all significant facts in respect of Assets and Liabilities and related uncertainly.

#### SYSTEM OF INTERNAL CONTROLS

The Board has established a system of Internal Controls that is considered sound in view of the Company's nature of business and its size. The Board has also established mechanisms for on going monitoring of the Internal Control to ensure its effective implementation. Further, due to difficulties in the financial position of the Company, there is no appropriate segregation of duties, however such factors has'been overcome by direct supervision of a full time Director.

#### AUDITORS' REPORT

As regard the auditors' remarks/qualification regarding inadequate provision and unrealised finance income, we feel that the amounts mentioned therein are recoverable and in case of our failure in recovery, the amount will be fully covered through provisions. The company has suspended all the accruals of profit as required under Leasing Companies Rules.

The reservation of the Auditors in respect of the investment of funds with Asset Investment Bank Limited, an associated company of National Asset Leasing Corporation Limited, have already been explained above.

The reversals of profit in all the cases are justified as per corresponds/agreements signed between your company and the lenders.

#### PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30,2003 is annexed to this report.

There was no trading in shares by any Director, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children.

#### AUDITORS

The auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants retire and offer themselves for re-appointment.

#### ACKNOWLEDGEMENT

The Board likes to place on record their deep appreciation of the efforts put and dedication shown by all personnel of the company.

Your Directors express their gratitude to lenders and regulatory bodies for their support.

For and on behalf of  
NATIONAL ASSET LEASING CORPORATION LTD.

Islamabad: October06,2003

RANA M. ABU OBAIDA

Chief Executive

#### KEY FINANCIAL AND OPERATING DATA

Description	2003	2002	2001	2000	1999	1998	1997
Revenue	840,472	1,238.37	2,985,396	36,467,017	32,949,413	43,578,370	42,200,174
Expenditure	6,949,589	22,083,559	28,208,594	31,419,137	21,599,858	37,064,553	39,792,525
Profit/(Loss) before provisions	-6,109,117	-20,845,192	-25,223,198	5,047,880	11,349,555	6,513,817	2,407,649
Provisions	-7,376,572	-19,944,046	37,842,693	26,583,560	24,575,792	500,000	3,461,412
Profit/(Loss) for the year before taxation	1,267,455	-901,146	-63,065,891	-21,535,680	-13,226,237	6,013,817	-1,053,763
Taxation reversal/fcharged)	-535,904	-10,000	-5,425,475	-5,852,475	300,000	1,110,693	500,000
Net Profit/(loss) for the year after taxation	731,551	-911,146	-57,640,416	-27,388,155	-13,526,237	4,903,124	-1,553,763
Unappropriated Profit/(loss) brought forward	-91,961,078	-91,049,932	-30,809,516	-3,421,361	10,104,876	6,182,377	7,736,140
Appropriations	-146,310	-	-	-	-	11,085,501	6,182,377
Deficit on Remeasurement of Financial	1	-	-	-	-	-	-
Intruments	2,909,142	-578,951	-	-	-	-	-
Transfer to reserve fund	-	-	-	-	-	980,625	-
Unappropriated Profit/(loss) carried forward	-91,375,837	-92,540,029	-88,449,932	-30,809,516	-3,421,361	10,104,876	6,182,377

#### COMBINED PATTERN OF CDC & PHYSICAL SHARE HOLDINGS

AS AT 30-06-2003

CATEGORY NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO.OF FOLIOS/CDS ACCOUNTS	CATEGORY WISE SHARES HELD"	PERCENTAGE %
1	INDIVIDUALS		657	3,514,000	36.85
2	INVESTMENT COMPANIES		1	1,500	0.02
3	JOINT STOCK COMPANIES		29	1,332,100	13.97
4	DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN		.. • 9	1,487,700	15.6
	MR. SHAMIM I. JUNEJO	45,100			
	MR. RANA M. ABU OBAIDA	160,000			
	MR. AZHAR TARIQ KHAN	260,000			
	MR. M.A. REHMANI	160,000			
	MR. SOHAIL AII	216,500			
	DR. KHALID IQBAL	220,000			
	SYEDNAVEEDZAIDI	161,600			
	MRS. ZOHRA W/O MR. SHAMIM I. JUNEJO	30,100			
	MRS. NAYYOR RASOOL W/O. MR. M.A.REHMANI	234,400			
5	EXECUTIVES				
6	NIT/ICP		3	818,600	8.58
	NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	810,000			
	INVESTMENT CORPORATION OF PAKISTAN	8,600			
7	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		2	1,200,000	12.58
	NATIONAL INDUSTRIAL MANAGEMENT LIMITED	400,000			

8	ASSET INVESTMENT BANK LIMITED	800,000		
9	PUBLIC SECTOR COMPANIES AND CORPORATIONS		12	1,182,800
10	BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS			12.4
11	FOREIGN INVESTORS			
12	CO-OPERATIVE SOCIETIES			
13	CHARITABLE TRUSTS		1	100
	OTHERS			0
	TOTALS		714'	9,536,800 ,
				100

TOTAL

## COMBINED PATTERN OF CDC &amp; NORMAL SHARE HOLDINGS AS AT 30-6-2003

NUMBER OF SHAREHOLDERS	SHARE	HOLDINGS	TOTAL SHARES HELD
46	1	-	100
204	101	-	500
171	501	-	1000
178	1001	-	5000
43	5001	-	10000
15	10001	-	15000
14	15001	-	20000
6	20001	-	25000
1	25001	-	30000
6	30001	-	35000
1	35001	-	40000
1	40001	-	45000
4	45001	-	50000
2	55001	-	60000
3	65001	-	70000
1	75001	-	80000
2	155001	-	160000
1	160001	-	165000
1	195001	-	200000
1	200001	-	205000
2	215001	-	220000
2	230001	-	235000
1	255001	-	260000
3	345001	-	350000
1	395001	-	400000
1	795001	-	800000
1	805001	-	810000
1	850001	-	855000
1	945001	-	950000
714			9,536,800

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	SHARES HELD	PERCENTAGE %
1- INDIVIDUALS	666	5,001,700	52.446
2- INVESTMENT COMPANIES	5	813,100	8.526
3- INSURANCE COMPANIES			
4- JOINT STOCK COMPANIES	31	1,733,100	18.173
5- FINANCIAL INSTITUTIONS	4	1,083,400	11.36
			9.494

6- MODARABA COMPANIES	7	905,400	
7- FOREIGNERS			
8- CO-OPERATIVE SOCIETIES			
9- CHARITABLE TRUST			
10-OTHERS	1	100	0.001
TOTALS	714	9,536,800	100

#### STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in regulation No.37 (Chapter XI) of listing regulations of Karachi Stock Exchange (Guarantee) Limited, Clause 40 (Chapter XIII) of the listing regulation of the Lahore Stock Exchange (Guarantee) Limited and Section 36 (Chapter XI) of the listing regulations of the Islamabad Stock Exchange (Guarantee)Limited respectively, for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the Code in the following manner.

- 1) The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board consists of Chairman and seven Directors. Directors are nominated/ elected by the shareholders. Presently all the Directors are non-executive except for one who is the Chief Executive of the Company and his terms and conditions are determined by the Board of Directors.
- 2) All the directors,except two have confirmed that none of them is serving as a director in more than ten listed Companies, including this Company.
- 3) All the resident Directors of the Company are registered as taxpayers and all except two have confirmed that they have not been convicted by a court of competent jurisdiction as defaulter in payment of any loans to a banking Company, a Development Financial Institution or a Non-Banking Financial Institution or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
- 4) No casual vacancy occurred in the Board during FY 2003
- 5) The Company has prepared its statement of ethics and business practices, which has been approved by the Board of Directors in its meeting dated October 6, 2003 and will be signed by all the directors and employees of the Company.
- 6) The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company and has approved in its meeting dated October 6, 2003. A complete record of particulars of significant policies along with the dates on which these were approved or amended is currently being developed.
- 7) •All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have taken by the Board.
- 8) The meetings of the Board held during FY 2003 were presided over by the Chairman, and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- 9) In compliance with the clause regarding orientation course, the directors thoroughly reviewed and discussed the Code of Corporate Governance in its meeting held during the year to apprise them of their duties and responsibilities.



- 10) The Board has approved appointment of CFO, Company Secretary and Head of Internal audit, including their remuneration and terms and conditions of employment, as determined by the CEO, in its meeting dated October 6,2003.
- 11) The Director's report for this year has been prepared in compliance with the requirement of the code and fully describes the salient matters required to be disclosed.
- 12) The Financial Statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- 13) The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
- 14) The Company has complied with all the corporate and financial reporting requirements of the Code.
- 15) The Board has formed an audit committee comprising three non-executive directors including the chairman of the committee.
- 16) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company, and as required by the Code of Corporate Governance. The terms of reference of the committee have been formed and approved by the Board of Directors in its meeting dated Octobers, 2003 and will be advised to the Committee for compliance.
- 17) The Company is in the process of forming an effective internal audit function, which will carry out audit on a continuing basis.
- 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 19) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- 20) We confirm that all other material principles contained in the Code have been complied with as stated above, except for serial Nos. 2,3,5,6,10,16 & 17 above, towards which reasonable progress is being made by the Company to seek compliance by the end of next accounting year.

RANAM.ABUOBAIDA

Chief Executive

Islamabad: Octobers, 2003

Auditor's Review Report to the Members on Statement of compliance with Best Practices of Code of Corporate Governance.

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Asset Leasing Corporation Limited to comply with the Listing Regulations Nos. 30,37 and 40 of the Islamabad, Lahore & Karachi Stock Exchanges respectively where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified,

whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it is does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special Review of the internal control systems to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and effectiveness of such controls.

The Company did not comply with certain requirements of the Code that are disclosed in paragraph 20 of the statement of compliance.

Based on our review, except for the non-compliance referred in the preceding paragraph, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, which the best practices contained in the Code of Corporate Governance.

M. Yousuf Adil Saleem & Co.

Chartered Accountants,  
Karach: October 06, 2003.

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Asset Leasing Corporation Limited (the Company) as at June 30, 2003 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and except for the matter stated in paragraph 'e' below we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

Except for the matter stated in paragraph 'e' below we conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) Provision for doubtful debts in respect of other receivables reflected in note 16 to the financial statements is inadequate to the extent of Rs. 6.97 million, which we consider are doubtful. Further, the Company has not suspended the unrealized finance income of Rs. 15.74 million on classified lease finance in accordance with the "Non-Banking Finance Companies Establishment and Regulation Rules, 2003 (the NBFC Rules)". Consequently, other receivables and net investment in finance lease are overstated and accumulated loss is understated by these amounts respectively.
- b) As described in note 17.2 of the financial statements, the Company has not made any provision against its deposit with an associated investment bank of Rs. 43.98 million, which has remained outstanding for several years on the basis that the same will be converted into equity upon finalization of arrangements to revive the investment bank as described in the note. Due to the adverse financial position of this investment bank, the recoverability of this amount is considered doubtful. No provision has been made against this doubtful deposit.

c) Uptill June 30, 2002, the Company had charged mark-up at the rate of 20.50% on the outstanding liability payable to a Development Financial Institution (DPI) (which is currently under liquidation) based on the original agreement executed in the year 1995. However, an amount of Rs.12.55 million was reversed in 2002 based on rescheduling arrangement finalized in the year 1998. The Company could not meet the payments as per such rescheduling arrangement. As against the liability reflected in the financial statements of Rs.42.20 million, the liquidator of the DPI has filed a suit claiming Rs.54.48 million from the Company. Accordingly, this liability to DPI is understated by Rs. 12.28 million as described in Note 5.2 and Note 10.4.

d) The Company has note accrued the mark-up of Rs.5.19 million for the year ended June 30,2003 on a long-term finance obtained from a bank as described in note 6.1. We were not provided any appropriate basis for not accruing the mark-up. Further an amount of Rs.0 million remains unreconciled with the books of account of the Bank.

e) As described in note 17.1 of the financial statements, an amount of Rs.6.92 million held in a current account with Muslim Commercial Bank Limited, is in dispute and under litigation. We have also not received confirmation from the bank. Consequently, we were unable to verify the recoverability of this amount.

In our opinion, except for the effects of matters stated in paragraphs 'a' to 'e' above, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

In our opinion, except for the effects of matter stated in paragraphs 'a' to 'e' above, the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied.

In our opinion;

i) the expenditure incurred during the year was for the purpose of the Company's business; and

ii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company,

In our opinion, except for the matters stated in the paragraphs 'a' to 'e' above and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required. Due to the impact of the matters stated in paragraphs 'a' to 'e' above, in our opinion the above referred statements respectively do not give a true and fair view of the state of the Company's affairs as at June 30,2003 and of the profit, its cash flows and changes in equity for the year then ended; and

In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 2.3.1 to the financial statements which describes that the Company's accumulated losses upto June 30, 2003 amounted to Rs.91.38 million which had reduced its net equity to Rs.16.88 million and the Company has not paid the overdue amounts to financial institutions. Further, the Securities and Exchange Commission of Pakistan has cancelled the leasing license of the Company through its letter dated April 4, 2002 due to its failure to enhance its capital to Rs.200 million as required under Rule 7(3) of the Leasing Companies (Establishment and Regulation) Rules, 2000. These factors raise substantial doubt that the Company will be able to continue as a going concern.

Sd/

M. YOUSUF ADIL SALEEM & CO.,  
Chartered Accountants

Karachi

Date: October 06,2003

## BALANCE SHEET

	Note	2003 Rupees	2002 Rupees
Share Capital			
Authorized			
10,000,000 ordinary shares of Rs.10 each		100,000.00	100,000.000
Issued, subscribed and paid-up			
9,536,800 fully paid ordinary shares			
of Rs. 10 each against cash	4	95,368,000	95,368,000
RESERVES			
Statutory reserve		9,975,150	9,828,840
Unrealised gain / (loss) on remeasurement		2,909,142	-578,951
Accumulated loss		-91,375,837	-91,961,078
	.	-78,491,545	-82,711,189
		16,876,455	12,656,811
REDEEMABLE CAPITAL	5	-	7,753,500
LONG-TERM FINANCES	6	-	-
LEASE KEY MONEY	7	29,000	142,713
CERTIFICATES OF INVESTMENT	8	230,000	230,000
CURRENT LIABILITIES			
Current portion of redeemable capital	5	44,426,881	36,42,171
Current portion of long-term finances	6	30,943,685	32,996,035
Current portion of lease key money	7	2,034,331	7,147,328
Certificates of investment	8	2,835,921	3,325,921
Accrued and other liabilities	9	51,937,120	49,730,601
		132,177,938	129,672,056
CONTINGENT LIABILITIES	10		
		149,313,393	150,455,080

The annexed notes form an integral part of these financial statements.

These financial statements were authorised for issue in the Board of Directors meeting held on

October 06,2003.

AS AT JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
TANGIBLE FIXED ASSETS	11	1,876,423	2,226,584
NET INVESTMENT IN			
LEASE FINANCE	12	49,746,674	59,981,065
Current portion		-49,627,142	-59,552,962
		119,532	428,103
INVESTMENTS	13	25,396,798	13,192,700
LONG TERM RECEIVABLES	14	742,180	8,419,390
CURRENT ASSETS			
Current portion of net investment			
in lease finance	12	49,627,142	59,552,962
Current portion of Long Term			
receivables	14	9,191,910	6,337,500

Investment	15	-	253,900
Advances, deposits, prepayments and other receivables	16	9,365,326	8,110,185
Cash and bank balances	17	52,994,082	51,933,756
		121,178,460	126,188,303
		149,313,393	150,455,080

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
<b>REVENUE</b>			
Income from leasing operations	18	101,846	1,005,781
Income from Government securities		-	57,541
Dividend income		40,859	41,045
Income from bank deposits		8,057	-
Profit on disposal of fixed assets		-	134,000
Other income		689,710	•
		840,472	1,238,367
<b>EXPENDITURE</b>			
Return and financial charges	19	2,476,853	15,773,538
Loss on lease disposal		-	983,929
Administrative and operating expenses	20	4,472,736	5,326,092
		6,949,589	22,083,559
<i>(Loss) before provisions / (reversals) and other adjustments</i>		-6,109,117	-20,845,192
<b>PROVISIONS/ (REVERSALS) AND OTHER ADJUSTMENTS</b>			
Provision / (Reversal) for doubtful debts			
Net investment in lease finance		-3,267,253	-
Advances, deposits, prepayments and other receivables		-118,218	117,827
Diminution in value of TFCs		543,894	-
Reversal of suspense and provision		-877,688	-
Settlement of liabilities and a lease	21	-3,581,016	-20,245,983
(Gain) / deficit on remeasurement of financial instruments	22	-76,291	184,110
		-7,376,572	-19,944,046
<i>Profit / (Loss) before Taxation</i>		1,267,455	-901,146
Provision for Taxation	23	-535,904	-10,000
<i>Profit / (Loss) after taxation</i>		731,551	-911,146
<b>APPROPRIATIONS</b>			
Transfer to statutory reserve		-146,310	-
<b>ACCUMULATED (LOSS) BROUGHT FORWARD</b>		-91,961,078	-88,449,932
<b>DEFICIT ON REMEASUREMENT OF INVESTMENTS</b>		-	-2,600,000
		-91,961,078	(91,049,932)
<b>ACCUMULATED (LOSS) CARRIED FORWARD</b>		(91,375,837)	-91,961,078
<b>EARNINGS / (LOSS) PER SHARE</b>	31	0.08	-0.1

The annexed notes form an integral part of these financial statements.

CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2003

	2003 Rupees	2002 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit / (loss) for the year before tax		•
Adjustments for :		

Depreciation on fixed assets	1,267,455	-901,146
(Gain) on sale of fixed assets	367,701	616,580
Provision / (reversals) for doubtful debts against:	-	(134,000) ,
Net investment in lease finance		
Advances, deposits, prepayments and other receivables	-3,267,253	-
Suspended income	-118,218	117,827
Diminution in value of TFCs	-877,688	-
(Reversal) of provision for diminution in value of investment	543,894	-
Reversal/(Provision) for taxation		-634,000
(Gain) on remeasurement of financial asset and financial liability	-535,904	(10, 000,0)
Financial charges on borrowings	-76,291	-
	2,476,853	15,773,538
<i>Cash inflow from operating activities before changes in operating Assets and Liabilities</i>	-1,486,906	15,729,945
Decrease in investment in lease finance	-219,451	14,828,799
(Increase) in advances, deposits, prepayments and other receivables	10,753,371	33,736,469
Decrease / (increase) in receivables	-1,136,923	-993,230
(Increase) / decrease in investment	4,822,800	-14,756,890
Increase / (decrease) in accrued and other liabilities	-5,580,038	934,000
Decrease in long- term deposits	2,206,519	-13,591,226
(Decrease) in certificates of investment	-	157,200
(Decrease) in lease key money	-490,000	-249,900
	-5,226,710	-1,942,829
Payment of Return and Financial Charges	5,349,019	3,293,594
Income tax paid	-2,476,853	-18,233,506
	-	-65,956
Net cash generated from operating activities	2,872,166	15,005,868
	2,652,715	-177,069

	2003	2002
	Rupees	Rupees
<b>6. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets		
Encashment of WAPDA Bond	-17,540	-39,000
Sale of fixed assets	-	500,000
Proceeds from long-term investment	-	445,000
Net cash generated from investing activities	200,000	460,000
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>	182,460	1,366,000
Increase/ (decrease) in redeemable capital		
(Decease) in long-term finance	277,501	-1,559,300
(Decrease) in obligation under finance leases	-2,052,350	-5,297,650
Net cash (outflow) from financing activities	-	-321,544
Net increase / (decrease) in cash and cash equivalents	-1,774,849	-7,178,494
Cash and Bank balances at beginning of the year	1,060,326	-5,989,563
Cash and Bank balances at the end of the year	51,933,756	57,923,319
	52,994,082	51,933,756

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2003

Is sued  
Subsc ribed  
Statutory  
Accumulated  
Unrealised gain / (loss)

	and paid-up capital	reserve *	(loss)	on remeasurement of investment	Total
Balance at July 1, 2001	95,368,000	9,828,840	-88,449,932	-	16,746,908
Unrealised loss on remeasurement of investments	-	-	-2,600,000	-	-2,600,000
Restated balance as at July 1, 2001	95,368,000	9,828,840	-91,049,932	-	14,146,908
(Loss) for the year ended June 30, 2002	-	-	-911,146	-	-911,146
Unrealised loss on remeasurement of investments	-	-	-	-578,951	-578,951
Balance at July 1, 2002	95,368,000	9,828,840	-91,961,078	-578,951	12,656,811
Profit for the year ended June 30, 2003	-	-	731,551	-	731,551
Transferred to statutory reserve	-	146,310	-146,310	-	-
Unrealised gain on remeasurement of Investments	-	-	-	3,488,093	3,488,093
Balance at June 30, 2003	95,368,000	9,975,150	-91,375,837	2,909,142	16,876,455

\* The statutory reserve was created by transferring not less than 20% after tax profit for the year under the Leasing Companies (Establishment and Regulation) Rules, 2000 now substituted by Non-Banking Finance Companies Establishment and Regulation Rules, 2003 (the NBFC Rules) issued by the Securities and Exchange Commission of Pakistan (SECP).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

### 1. STATUS AND NATURE OF BUSINESS

1.1 National Asset Leasing Corporation Limited (the Company) was incorporated on August 26, 1990 as a public limited company and was engaged in the business of leasing under the Leasing Companies (Establishment and Regulation) Rules, 2000 (the Leasing Rules) substituted by Non-Banking Finance Companies Establishment and Regulation Rules, 2003 (the NBFC Rules) issued by the Securities and Exchange Commission of Pakistan (SECP). The Company is listed on Karachi, Lahore and Islamabad stock exchanges. As described in note 2.3.2 below, on April 4, 2002 the license of the Company for carrying on leasing business was cancelled and since then, the Company has ceased its leasing operations.

### 2. BASIS OF MEASUREMENT AND STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared under the historical cost convention as modified to comply with the requirements of International Accounting Standard (IAS)-39 "Financial Instruments: Recognition and Measurement", wherever applicable.

2.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984, the NBFC Rules and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of the Companies Ordinance, 1984 or NBFC Rules or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the NBFC Rules or the requirements of the said directives take precedence.

### 2.3 Going Concern Assumption

2.3.1 The Company's accumulated losses upto June 30, 2003, amounted to Rs. 91.38 million (2002: Rs.91.96 million) which had reduced its net equity to Rs.16.88 million (2002: Rs.12.66 million). The Company has not paid the overdue amounts to financial institutions as specified in notes 5.3, 6.3, 8.1 and 9.1 to the financial statements. Due to the non-compliance of the Rule 7(3) of the Leasing Rules relating to the enhancement of the paid-up capital to two hundred million rupees by June 30,

2001, the SECP cancelled the leasing license of the Company on April 4, 2002. Due to these Conditions, there are doubts that the company will be able to continue its operations as a going concern in the foreseeable future.

2.3.2 In order to revive the company's viability as a leasing company and for restoration of its leasing license, management has taken a number of steps, including negotiations with various lenders for appropriate restructuring and settlement of its liabilities. Management is also negotiating with a leasing company and investors for the merger and enhancement of its equity. As regards the deposit of Rs 43.98 million placed with an associated investment bank, management of the investment bank has successfully negotiated with Army Welfare Trust (AWT) and Habib Bank Limited (HBL) to participate in the enhancement of capital of the investment bank. The Company will also convert its deposit plus profit into equity jointly with AWT and HBL subject to approval by SECP. Necessary approvals of the Directors and members have already been obtained in the last Annual General Meeting of the Company. As a result of the proposed restructuring of the investment bank, the likelihood and extent of recovery of this stuck up deposit through conversion into shares of the investment bank will increase significantly. Further, the Company has repaid / settled loans of Rs.10.82 million during the year through the sale of TFCs and rentals received, and it is in the process of negotiating the Settlement of remaining overdue amounts with various lenders.

In view of the arrangements described in the preceding paragraph, management is confident that after the finalization of such arrangements, the Company's license will be restored and its normal operations, as a leasing Company will be revived. Accordingly, these financial statements have been prepared on a going concern basis.

### 3. **SIGNIFICANT ACCOUNTING POLICIES**

#### 3.1 **Tangible fixed assets and depreciation**

##### **Owned**

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of the asset less estimated residual value is allocated over its estimated useful life. Depreciation on fixed assets is charged proportionately from the month of acquisition (full month's depreciation being charged in the month of acquisition ) upto the month prior to deletion.

#### 3.2 **Employee benefits**

##### **(a) Provident fund**

The Company operated a contributory provident fund (the Fund) for all its permanent employees and equal contributions were made, both by the Company and by the employees to the Fund upto June 30, 2002. The Fund has been temporarily discontinued from July, 2002 due to financial constraints and liquidity crunch. The scheme will be re-started after the restoration of the license of the Company and revival of its normal operations.

##### **• (b) Compensated absences**

The Company provides for unavailed compensated absences to the extent of 30 days per annum for all its permanent employees. Provision for liabilities towards vested compensated absences is made on the basis of last drawn basic pay.

#### 3.3 **Investments**

3.3.1 The investments of the Company are classified as securities held to maturity and available for sale.



### 3.3.2 **Initial recognition**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

### 3.3.3 **Subsequent measurement**

#### (a) **Held to maturity**

These are securities with fixed or determinable payments and fixed maturity that the Company Has the positive intent and ability to hold to maturity and are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts.

#### (b) **Available for Sale**

These are investments that do not fall under held to maturity and held for trading.

Available for sale investments are measured at subsequent reporting dates at fair value. Surplus / deficit arising from re-measurement are taken to equity.

Fair value of quoted marketable securities is determined by reference to the stock exchange rates ruling on the balance sheet date. In the case of unquoted securities, the net asset value based on latest available financial statements is taken as the fair value.

## 3.4 **Financial Instruments**

The Company's principal financial assets are net investment in lease finance net of related deposits, investments, receivables, advances, deposits and other receivable and cash and bank balance. Net investment in lease finance are stated at their nominal value as reduced by appropriate allowance for estimated irrecoverable amounts, while other financial assets are stated at fair value, amortized cost or cost.

The Company's financial liabilities are classified according to the substance of their contractual arrangements. Significant financial liabilities include redeemable capital, long - term finances, certificates of investment, accrued and other liabilities.

## 3.5 **Long-term finances and redeemable capital**

All long-term finances and redeemable capital are initially recognised at cost being the fair value of the consideration received together with the associated transaction costs. Subsequently, these are recognised at amortised cost using effective interest rate method.

## 3.6 **Provisions**

In respect of provisions for lease losses the Company maintains provision for doubtful debts at a ' level that can be reasonably anticipated keeping in view the nature of the overall business activities and regulatory requirements.

Other known bad debts are written off and provision is made for debts considered doubtful.

## 3.7 **Offsetting**

Asset and liability is off-set and the net amount reported in the balance sheet if the Company has a legal enforceable right to set-off the transactions and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Corresponding income on the asset and charge on the liability is also off setted.

## 3.8 **Revenue recognition**

The Company follows the "financing method" in recognizing income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortized over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

Dividend income from quoted entities is recognized at the time of closure of share transfer books of the company declaring the dividend.

Income on Government securities is recognized by pro-rata accruals of the differential in cost and maturity values and/or the coupon rate applicable.

Project examination, consultancy, commitment and other charges are taken to income when realized.

### 3.9 **Taxation**

#### **Current**

The charge for current taxation is based on taxable income which is computed as if all leases are accounted for as operating leases.

#### **Deferred**

The Company accounts for deferred taxation using the liability method on all significant temporary differences.

## 4. **ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

This include 800,000 ordinary shares held by Asset Investment Bank Limited and 400,000 ordinary shares held by National Industrial Management Limited, associated companies.

		2003 Rupees	2002 Rupees
5. <b>REDEEMABLE CAPITAL • SECURED</b>			
Musharika funds	5.1	18,064,131	17,862,921
Finance under Term Finance Certificates	5.2	26,362,750	26,362,750
		44,426,881	44,225,671
Less: current portion	5.3	-44,426,881	-36,472,171
		-	7,753,500

### 5.1 **This includes**

(a) Rs.13 million Musharika funds obtained from a Modaraba, which the company could not pay when due. The Company had negotiated an arrangement of full and final settlement with the Modaraba in August, 2002 by assigning its receivables amounting to Rs.14 millions against principal and accrued mark-up which were falling due till September 2003. As a result, an amount of Rs 6.19 million of accrued markup were reversed during the year ended June 30, 2002. The assignment of receivable agreement is still in the process of being finalised. In terms of this arrangement, the Company paid its first installment of Rs.1 million in January, 2003 but has not paid its second installment of Rs.4 million which was due on March 31, 2003. The facility is secured by charge on leased assets and personal guarantee of directors.

(b) . Rs.6.42 million Musharika funds obtained from a commercial bank (the Bank), which the company could not pay when due. The Bank had filed a suit against the Company for recovery of Rs. 10.11 million in October 2002 as described in Note 10.3. In June 2003 the .Company negotiated an arrangement of full and final settlement with the Bank as per which it assigned its Term Finance Certificates (TFC's) amounting to Rs.7.57 million as described in Note 13.1.4. The

company has made a down payment of 1 million to the Bank subsequent to the balance sheet date. A short fall of liability of Rs2.15 millions resulting from this arrangement has been recognised as mark-up during the year. This facility was secured by a mortgage and charge on present and future book debts of the Company and hypothecation of plant and machinery and personal guarantees of all directors

**5.2** This represents credit line obtained from a Development Financial Institution (DPI). The finance was repayable in four half-yearly and eleven quarterly installments and carried mark-up of 20.5% per annum. The installments commenced from October 1, 1998. During the year 2002, the Company had reversed an amount of Rs 12.55 million out of total liability based on the rescheduling in the year 1998. The DPI has filed a recovery suit in the Banking court amounting to Rs. 54.48 million (as described in Note 10.4). The facility was secured by way of assignment of lease rentals and personal guarantees of the directors.

5.3 This includes Rs. 35.79 million (2002: Rs 32.48 million) as overdue amount not paid.

		2003	2002
		Rupees	Rupees
6. <b>LONG-TERM FINANCES - SECURED</b>			
From :			
A commercial bank	6.1	29,643,685	29,643,685
A modaraba	6.2	1,300,000	3,352,350
		30,943,685	32,996,035
Less: current portion	6.3	-30,943,685	-32,996,035

**6.1** This represents balance of two term finance facilities of Rs.20 million each obtained from a commercial bank (the bank), carrying mark-up rate of Rs.0.48 per Rs. 1,000 per day. The two lines were repayable in four and twelve quarterly installments, which commenced from September 30, 1998 and September 30, 1999 respectively. These facilities were secured by registered deed of assignment of lease rentals of specific leases. The Company has not accrued mark-up for the year ended June 30, 2003 amounting to Rs. 5.19 million. Further, the bank has also filed a recovery suit in the banking court amounting to Rs.62.12 million as described in Note 10.2.

6.2 This represents Morabaha finance facility of Rs.20 million obtained from a Modaraba. The Company entered into an agreement dated August 19,2002 with the Modaraba whereby the Company had agreed to assign its receivables amounting to Rs.3.40 million as full and final settlement against the liability of Rs.13.40 million. Consequently, an amount of Rs 2.70 millions of principal and an amount of Rs. 7.30 million of accrued markup had been reversed during the year 2002. Subsequent to the balance sheet date, the Company has settled its outstanding liability of Rs.2.049 million as full and final settlement through a payment of Rs. 1.3 million. Accordingly, the balance amount of Rs. 0.749 million has been reversed during the year. The facility was secured by deed of assignment of lease rentals of specific leases and personal guarantees of directors of the Company which have been released subsequently.

6.3 This is an aggregate amount of installments, which include an amount of Rs. 29.64 million (2002: Rs 29.64 million) which is overdue.

#### 7. LEASE KEY MONEY

		2003	2002
		Rupees	Rupees
Lease key money		2,063,331	7,290,041
Less: current portion		-2,034,331	-7,147,328
		29,000	142,713
		2003	, 2002

		Rupees	Rupees
<b>8. CERTIFICATES OF INVESTMENT</b>			
These are issued for maturity periods of three months to five years. The return on certificates ranges			
From 12% to 18.5%.			
Certificates of investment		3,065,921	3,555,921
Less: current portion	8.1	-2,835,921	-3,325,921
		<u>230,000</u>	230,000
8.1 This represents overdue amount.			
<b>9. ACCRUED AND OTHER LIABILITIES</b>			
Accrued return/mark-up on secured			
redeemable capital and long-term finances	9.1	49,207,501.00	47,001,152
Accrued return on Certificates of investment		1,416,714	1,304,914
Accrued operating expenses		603,443	742,855
Unclaimed dividend		116,558	116,558
Provision for taxation		592,904	437,000
Other liabilities		-	128,122
		51,937,120	49,730,601

9.1 This represents overdue mark-up payable to various financial institutions.

#### **10. CONTINGENT LIABILITIES**

10.1 Contingent liability in respect of suit filed in the Banking Court by a bank amounting to Rs.7.32 million. Management is confident that the matter is likely to be decided in favour of the Company and no liability will arise (refer note 17.1).

10.2 A suit has been filed by a bank in the Banking Court for the recovery of amount of Rs.62.12 million. However, amounts of Rs. 29.64 million and Rs. 30.21 million have already been incorporated in the long-term finance (refer note 6.1) and mark-up (refer note 9) respectively. Management is confident that the matter is likely to be decided in the favour of the Company and no additional liability will arise. Accordingly, a provision of liability of balance amount Rs.2.27 million has not been made in these financial statements.

10.3 A suit has been filed by a bank in Banking Court for the recovery of amount Rs. 10.11 million against the recorded liability of redeemable capital of Rs.6.42 million. Management contends that the matter is likely to be settled at the recorded liability and no provision has been made for the difference between the suit amount and the recorded liability (refer note 5.1 b ).

10.4 A suit has been filed by a DPI in the Banking Court for the recovery of amount of Rs.54.48 million against the recorded amount redeemable capital of Rs 42.2 million (including principal and mark up - see note 5.2 and 9). Management is confident that the matter is likely to be decided in favour of the Company and no additional liability will arise. Accordingly, a provision of the additional liability of Rs. 12.28 million has not been made.

#### **11. FIXED ASSETS - TANGIBLE**

Particulars	Cost at		Cost as at	Accumulated	Depreciation/	Accumulated	Written down	Depreciation
	2002	July 01, (deletions) during the Year						
<b>OWNED</b>								
Office equipment	2,212,615	6,600	2,219,215	1,535,912	78,869	1,614,781	604,434	20
Furniture & fixture	1,117,747	10,940	1,128,687	823,947	54,512	878,459	250,228	10
Office renovation	2,150,641	-	2,150,641	2,150,641	-	2,150,641	-	33.33
Vehicles	3,831,035	-	3,831,035	2,574,954	234,320	2,809,274	1,021,761	20
	9,312,038	17,540	9,329,578	7,085,454	367,701	7,453,155	1,876,423	
		17,540		7,085,454	367,701		1,876,423	

2003	9,312,038	9,329,578			7,453,155
2002	10,213,038	9,312,038	7,097,874	616,580	7,085,454
	-2,512,000			-629,000	2,226,584

		2003 Rupees	2002 Rupees
<b>12. NET INVESTMENT IN LEASE FINANCE</b>			
Minimum lease payments receivable	12.1	96,018,109	146,104,499
Add: Residual value		7,465,131	11,313,643
		103,483,240	157,418,142
Less: Unearned finance income		-36,688,977	-54,495,322
Net investment in lease finance		66,794,263	102,922,820
Less: Provision for doubtful debts		-17,047,589	-42,941,755
	12.2	49,746,674	59,981,065

12.1 During the year an amount of Rs.5.62 million has been reclassified as investment in Term Finance Certificates (TFCs) as per the scheme of arrangement described in note 13.1

12.2 Net investment in lease finance

Less than one year		49,627,142	59,552,962
More than one year and less than five year		119,532	428,103
		49,746,674	59,981,065

		2003 Rupees	2002 Rupees
<b>13. WEsr/WE/vrs</b>			
Held to maturity	13.1	8,662,106	-
Available for sale			
Associated companies	13.2	3,941,000	1,490,000
Other companies	13.3	12,793,692	11,702,700
		25,396,798	13,192,700

13.1 Investment in unquoted Term Finance Certificates (TFCs)

Name of Company	Face Value June 30, 2003 Rupees
Pakland Cement Ltd (Series A)	5,214,759
Pakland Cement Ltd (Series B)	3,447,347
(See notes 13. 1.1 to 13. 1.5)	8,662,106
	8,662,106

13.1.1 In 2002 a "Scheme of Arrangement" was agreed between Pakland Cement Limited (PCL) and its creditors. According to the scheme PCL has issued TFCs in substitution for the existing lease obligations and other debts. Under this scheme the Company has received TFCs amounting to Rs.9.2 million against its receivables.

13.1.2 TFCs; have been issued by PCL in two series. TFCs series "A" represent the principal amount and

carries a yield of 16% per annum repayable semi-annually. TFCs series "B" issued for the accrued profit carry no yield.

13.1.3 These TFCs are freely tradeable amongst the TFC holders except that for sale/transfer to a party other than a creditor, prior consent of PCL would be required.

13.1.4 The Company has transferred all the rights, titles and interests of TFCs amounting to Rs. 7.57

million in favour of a commercial bank, described in Note 5.1 (b). Accordingly, to the extent of subsequent settlement the company has reversed a provision of Rs. 2.34 million.

13.1.5 An installment due on June 30, 2003 against the TFCs of series "A" has not been received. Negotiation with both the companies for further rescheduling is in process. The consortium of TFC holders / creditors through their respective association are pursuing the matter of obtaining exemption from SECP for keeping the status quo as regards the classification of TFC's and provisioning.

		2003 Rupees	2002 Rupees
13.2 <i>Investment in associated companies</i>			
Unquoted			
National Industrial Management Limited			
250,000 ordinary shares of Rs.10 each	13.2.1	476,000	747,500
Quoted			
Asset Investment Bank Limited			
990,000 (2002:990,000 ) ordinary shares of Rs.10 each		3,465,000	742,500
		3,941,000	1,490,000
		3,941,000	1,490,000

13.2.1 Percentage of equity held in the investee company is 25% of its capital. The Chief Executive of the associated company is Mr. Azhar Tariq Khan. As audit for the year ended June 30, 2003 of this company is in progress, the current year's break-up value is not available. The break up value as per latest audited financial statement for the year ended June 30, 2002 was Rs.1.9 per share.

		2003 Rupees	2002 Rupees
13.3 <i>Investment in other companies</i>			
Quoted			
Caravan East Fabrics Limited			
650,000(2002: 650,000) ordinary shares of Rs.10 each		3,900,000	3,900,000
First Hajveri Modaraba			
193,286 (2002: 193,286) modaraba Certificates of Rs.10 each		550,541	309,259
Sui Northern Gas Pipeline Limited			
19,004 (2002: 16,478) ordinary shares of Rs.10 each		629,033	227,396
First International Investment Bank Limited 111 (2002:111) ordinary shares of Rs.10 each		1,369	950
Pakistan Industrial Leasing Corporation Limited.			
6,000 (2002: 6,000) ordinary shares of Rs.10 each		42,900	30,000
Nayab Spinning & Weaving Mills Limited.			
750,000 (2002: 750,000) ordinary shares of Rs.10 each		6,587,500	6,890,000
Pakistan Telecommunication Corporation Limited.			
1700(2002:1700) vouchers of Rs.10 each		48,365	29,155
Industrial Capital Modaraba			
574,436 (2002: 574,436) modaraba certificates of Rs.10 each		1,033,984	315,940
		12,793,692	11,702,700
		12,793,692	11,702,700

		2003 Rupees	2002 Rupees
<b>14. RECEIVABLES</b>			
	»		
Held to maturity		9,934,090	14,756,890
Less: current portion		-9,191,910	-6,337,500
		742,180	8,419,390
<b>15. INVESTMENT</b>			
Unquoted			
Safa Rice Mills Limited			
115,000 (2002: 115,000) ordinary shares	15.1	-	253,900
of Rs.10 each			
t		-	253,900
15.1 Percentage of equity held in investee company was 12.28% of its capital. The name of chief executive of the investee company is Mr. Parvez Aslam. As per latest available audited financial statements for the year ended August 31, 2001 the company had a negative equity.			
<b>16. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advance			
to employees		1,583	619,322
for expenses		893,683	108,307
Deposits		207,500	236,040
Prepayments		41,117	38,494
Accrued income		-	21,029
Income tax		1,027,657	1,419,030
Receivables		2,175,953	3,004,251
Other charges recoverable from lessees		5,801,258	5,055,529
		10,148,751	10,502,002
Less: Provision for doubtful debts		-783,425	-2,391,817
		9,365,326	8,110.19
<b>17. CASH AND BANK BALANCES</b>			
Cash in hand		-	3,425
Balance with State Bank of Pakistan		-	300,000
Balance with banks / DFIs			
-on current accounts	17.1	9,004,682	7,616,510
-on deposit accounts		2,720	27,141
-certificates of deposits with an			
Investment bank	17.2	43,986,680	43,986,680
		52,994,082	51,933,756

17.1 This includes an amount of Rs 6.92 million held with a Commercial Bank (the bank), which is under dispute. The Company issued a legal notice to the bank in August 2000. The bank has also filed a suit against the Company as referred in note 10.1 above.

17.2 Because of the adverse financial position of this associated investment bank, this deposit has been classified as overdue and the mark-up thereon is being suspended since 2000. Further, the entire mark-up recognised upto that period was also reversed as required by Rule 10 of the Leasing Rules. Management of the investment bank has successfully negotiated with AWT and HBL to participate in the enhancement of capital of the investment bank. The Company will also convert its entire deposit plus profit into equity jointly with AWT and HBL subject to approval by SECP. Necessary approvals of the Directors and members have already been obtained in the last Annual General Meeting of the Company. As a result of the proposed restructuring of the investment bank, the

likelihood and extent of recovery of this stuck up deposit through conversion into shares of the investment bank will increase significantly. Management is confident that such endeavours will be successful. Consequently, no provision has been made against this deposit.

	2003	2002
	Rupees	Rupees
<b>18. INCOME FROM LEASING OPERATIONS</b>		
Return on lease contracts	101,846	966,458
Late payments charges	-	39,323
	101,846	1,005,781
<b>19. RETURN AND FINANCIAL CHARGES</b>		
Mark-up on redeemable capital	2,153,549	8,682,870
Mark-up on long-term finance	-	6,655,682
Return on Certificates of Investment	310,265	367,800
Other financial charges	13,039	67,186
	2,476,853	15,773,538
<b>20. ADMINISTRATIVE AND OPERATING EXPENSES</b>		
	*	
Salaries, allowances and benefits	2,703,990	2,376,728
Rent	84,000	411,974
Telephone, electricity and utilities	63,840	482,112
Printing and stationery	98,872	132,570
Insurance	31,617	73,254
Travelling and conveyance	109,450	306,626
Vehicle running expenses	326,791	137,607
Office maintenance	87,850	60,973
Auditors' remuneration (20.1)	115,000	90,000
Legal and professional charges	294,240	455,758
Depreciation on fixed assets	367,701	616,580
Fees and subscription	115,000	-
Other operating expenses	74,385	181,910
	4,472,736	5,326,092
<b>20.1 Auditors' remuneration</b>		
Audit fee	75,000	75,000
Other statutory/audit related services	30,000	5,000
Out-of-pocket expenses	10,000	10,000
	115,000	90,000
	2003	2002
	Rupees	Rupees
<b>21 . SETTLEMENT OF LIABILITIES</b>		
a) Reversal of mark-up and principal on settlement of redeemable capital and long term finance		
Redeemable Capital		
Modaraba	-	6,199,987
Commercial Bank	-	2,679,143
Long Term-Finances		
Modaraba	-749,250	10,000,623
	-749,250	-18,879,753
Loss on termination of assignment of receivable to above financial institutions	-	11,179,521
	-749,250	-7,700,232
b) Reversal of accrued financial charges		
Redeemable Capital		
Development Financial Institution	-	-12,545,751
c) TFCs received	-9,206,000	-
Pakland Cement Limited lease		



6,374,234	-
-3,581,016	-20,245,983

21.1 During the year the company made certain settlement arrangement where by the portion of its liability has been extinguished. Further, a lease agreement has been terminated and the amounts receivables under such lease have been assigned to a financial institution.

	2003 Rupees	2002 Rupees
<b>22. (INCOME) / DEFICIT ON REMEASUREMENT OF FINANCIAL INSTRUMENTS</b>		
(Income) / deficit on remeasurement of financial asset	-1,377,200	1,843,110
Deficit / (income) on remeasurement of financial liabilities	1,300,909	-1,659,000
	-76,291	184,110
<b>23. TAXATION</b>		
Current - for the year (23.3)	535,904	10,000
Deferred (23.2)	-	-
	535,904	10,000

### 23.1 Current

The assessments have been finalised upto the tax year 2000-2001. In respect of tax year 1999-2000, an additional tax demand was raised by the Deputy Commissioner of Income Tax (DCIT) amounting to Rs.8.3 million. As a result of an appeal with the Commissioner of Income Tax (Appeals) CIT(A), the Commissioner has set aside the order of the DCIT. However against the order of the CIT(A), the Income tax department (ITD) filed an appeal before the Income Tax Appellate Tribunal (ITAT). The ITAT dismissed the appeal filed by the ITD. The fresh order has not yet been issued. However after considering the reliefs allowed, management is of the view that the revised order will not result in assessment of income and demand for tax.

### 23.2 Deferred

A net deferred tax debit (asset) of Rs.6.80 million (2002: Rs. 8.33 million) has not been recognised in view of uncertainty with regard to future profitability.

### 23.3 Tax Reconciliation

2003  
Rupees

Accounting Profit	1,267,455
Losses of leasing business to be carried forward	-62,045,774
Profit on other activities	1,574,415
Less: bank deposits	-8,952
Less: dividend income	-43,009
Taxable income on other activities	1,522,453
Tax @ 35%	532,859
Tax on dividend income @ 5%	2,150
Tax on bank deposits @ 10%	895
Provision for Taxation	535,904

## 24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2003		2002	
Managerial	Chief Executive	Directors	Chief Executive	Directors
		Executives		Executives

Managerial

		722,580	-	326,500	812,140	-	304,500
Housing and Provident fund Allowance/ reimbursement		397,420	-	180,764	335,908	-	171,060
		-	-	-	-	-	22,833
		-	-	22,951	8,110	-	16,096
		1,120,000	-	530,215	1,156,158	-	514,489
Number of persons	1			2	1		2

				2003 Rupees	2002 Rupees
<b>25. AGGREGATE INVESTMENT IN ASSOCIATED UNDERTAKINGS</b>					
Investment in shares					
National Industrial Management Limited					
				476,000	747,500
Asset Investment Bank Limited					
				3,465,000	742,500
Investment in certificates of deposit					
Asset Investment Bank Limited					
				43,986,680	43,986,680
				47,927,680	45,476,680

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of investments available for sale is based on quoted market prices and the value of and unquoted Investments are estimated using the net asset value based on latest available financial statements, while investment classified as held to maturity are measured at amortised cost, less any impairment loss.

Fair value of net investment in lease finance, certificates of deposits, other receivables, redeemable capital and long term finances cannot be calculated with sufficient reliability due to contingencies involved for such assets and liabilities.

The fair value of remaining financial assets and liabilities are not significantly different from their carrying value.

**27. CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

The Company has not entered into any lease finance arrangement with any party during the year due to the cancellation of leasing license. An analysis of sector-wise investment in lease finance are as follows:

	2002		2003	
	Rupees	%	Rupees	%
Cement	-	-	3,373,547	5.62
Textile	43,462,339	87.37	43,462,339	72.47
Fuel and energy	-	-	305,000	0.51
Financial institutions	-	-	61,750	0.1
Educational Institution	-	-	-	-
Others	6,284,335	12.63	12,778,429	21.3
	49,746,674	'100	59,981,065	100

**28. FOREIGN EXCHANGE RISK MANAGEMENT**

Foreign currency risk arises mainly where receivables / payables exist due to transactions in foreign currency policies. The Company did not enter into any transaction involving foreign exchange during the year ended June 30, 2003.

**29. LIQUIDITY RISK MANAGEMENT**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the company has ceased its operations, it is not taking any new decisions entailing liquidity risk.

### 30. **INTEREST RATE MATURITY AND ANALYSIS**

As major portion of the Company's assets are non-performing and most of its liabilities are overdue but the Company is not able to repay them. Further, the Company is in the process of negotiating various restructuring arrangements with borrowers and lenders. Consequently, a realistic maturity and interest rate analysis can not be prepared.

30.1 The effective interest rate for each of the performing monetary financial instruments is as follows

	Effective interest rate 2003 %	Effective interest rate 2002 %
Net investment in lease finance (net of provisions)	15-20	15-20
Long term finance	-	17.52
Certificates of investment	12-18.5	12-18.5
Term Finance Certificates	16	-

### 31. **BASIC EARNINGS / (LOSS) PER SHARE**

31.1 Basic profit / (loss) per share is calculated by dividing the net profit / (loss) after tax for the year by the number of shares outstanding during the year as follows :

	2003	2002
Profit / (Loss) after Rupees	731,551	-911,146
Weighted average number of shares outstanding during the year	9,536,800	9,536,800
Basic earnings / (l) Rupees	0.08	-0.1

31.2 There is no effect of dilution on the profit/ (loss) per share of the Company.

### 32. **NUMBER OF EMPLOYEES**

Total number of full time employees as at the year end were 7 (2002 : 7).

### 33. **DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorised for issue on October 06, 2003 by the Board of Directors of the Company.



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